

## Brian Introduces Legislation to Prohibit Insider Trading on Capitol Hill (January 27, 2009)

Washington, D.C.- Congresswoman Louise Slaughter (D-NY-28) and Congressman Brian Baird (D-WA-03) have introduced common sense legislation that will stop insider trading on Capitol Hill. When passed, the Stop Trading on Congressional Knowledge Act (STOCK Act) will prohibit Members of Congress and their staff from using nonpublic information they are able to obtain through their official positions to enrich their personal portfolios.

Washington, D.C.- Congresswoman Louise Slaughter (D-NY-28) and Congressman Brian Baird (D-WA-03) have introduced common sense legislation that will stop insider trading on Capitol Hill. When passed, the Stop Trading on Congressional Knowledge Act (STOCK Act) will prohibit Members of Congress and their staff from using nonpublic information they are able to obtain through their official positions to enrich their personal portfolios. This legislation becomes even more important as the government prepares to inject even more money into the struggling economy through the Troubled Asset Relief Program.

"Members of Congress and their staffs should not be above the law when it comes to profiting from sensitive information," said Congressman Baird. "The American people expect Members and staffers to work on their behalf and to represent their interests, not to increase the returns on our investments and fatten their stock portfolios. Privileging a select group of investors with confidential information about congressional activity is not only a misuse of a congressional office, it also undermines investor confidence about the fairness and integrity of the securities market."

"Members of Congress and federal employees often have early access to sensitive information that can seriously affect the stock market," said Congresswoman Louise M. Slaughter, Chairwoman of the House Committee on Rules. "Unfortunately, there is a very real potential for this information to be used improperly. As we work to strengthen our economy, the STOCK Act will not only help rebuild trust in our markets, but also ensure the integrity of this Congress"

BACKGROUND: WHY THE STOCK ACT IS NECESSARY

Currently Members of

Congress and their staff do not owe a duty of confidentiality to Congress, and therefore are not liable for insider trading. Because of this, the temptation exists for Members and government employees to use government information only they have access to when making investment decisions. A 2004 report from Georgia State University showed that United States Senators received investment returns that were approximately 25% higher than what typical Americans were able to achieve.

Similarly, there is currently nothing to stop Congressional staffers and executive branch employees from sharing inside information with their friends. Armed with information not available to the general public, these people are able to make potentially lucrative investment decision that can either make them a windfall profit, or save them from a devastating loss.

Political intelligence firms have created a multi-million dollar industry to traffic this information. Since they first showed up in the 1970s, these firms have operated in secret, and largely without government controls. They provide investors with inside information about impending legislative action that can be used to inform investment decisions. One recent questionable example of these firms' influence appeared in late 2005:

On November 15, 2005, the stock of a building materials company in Chicago (USG Corp) suddenly doubled, despite the fact that there was no publicly available news about the company, or industry, which explained the increase in volume. What the public didn't know yet, but what some investors discovered through back channels and political intelligence companies, was that then-Senate Majority Leader Bill Frist had quietly decided to move forward with legislation to relieve companies, such as USG Corp, of their liabilities in asbestos related lawsuits.

.

To address these issues, the STOCK Act will:

- o Prohibit Members or employees of Congress from buying or selling stocks, bonds, or commodities futures based on nonpublic information they obtain because of their status;
- o Prohibit Executive Branch employees from buying or selling stocks, bonds or commodities futures based on nonpublic information they obtain because of their status;
- o Prohibit those outside Congress from buying or selling stocks, bonds, or commodities futures based on nonpublic information obtained from within Congress or the Executive Branch;
- o Prohibit Members and employees from disclosing any non-public information about any pending or prospective legislative action obtained from a member or employee of Congress for investment purposes;

- o Require Members of

Congress and employees to report the purchase, sale or exchange of any stock, bond, or commodities future transaction in excess of \$1,000 within 90 days. Members and employees who choose to place their stock in holdings in blind trusts or mutual funds would be exempt from the reporting requirement;

o Require firms that specialize in "political intelligence" and obtain their information directly from Congress to register with the House and Senate, and to disclose much like lobbying firms are now required to do. Political intelligence firms first appeared in the 1970s, but the industry remains relatively unknown because the firms are currently not required to disclose their clients or their earnings.

###